THE SASKATCHEWAN RESEARCH COUNCIL EMPLOYEES' PENSION PLAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2011

Provincial Auditor Saskatchewan

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SASKATCHEWAN

INDEPENDENT AUDITOR'S REPORT – SRC Employees' Pension Plan

To: The Members of the Legislative Assembly of Saskatchewan

I have audited the accompanying financial statements of the Saskatchewan Research Council Employees' Pension Plan (Plan), which comprise the statement of financial position as at December 31, 2010 and 2011 and the statement of changes in net assets available for benefits, and changes in pension obligations for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans for Treasury Board's approval, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Plan as at December 31, 2010 and 2011, and the changes in its net assets available for benefits and changes in its pension obligations for the years then ended in accordance with Canadian accounting standards for pension plans.

Regina, Saskatchewan
March 28, 2012

Bonnie Lysyk, MBA, CA
Provincial Auditor

THE SASKATCHEWAN RESEARCH COUNCIL EMPLOYEES' PENSION PLAN
STATEMENT OF FINANCIAL POSITION
As at December 31
(thousands of dollars)

	2011			2010		
	Defined Benefit	Defined Contribution	Total	Defined Benefit	Defined Contribution	Total
ASSETS						
Segregated fund (Note 4)	$ 1,387	$ 18,391	$ 19,778	$ 1,652	$ 19,978	$ 21,630
Accounts receivable	-	-	-	11	-	11
Total assets	$ 1,387	$ 18,391	$ 19,778	$ 1,663	$ 19,978	$ 21,641
LIABILITIES						
Accounts payable and accrued liabilities	4	-	4	2	-	2
Net assets available for benefits (Statement 2)	$ 1,383	$ 18,391	$ 19,774	$ 1,661	$ 19,978	$ 21,639
ACCRUED OBLIGATIONS (Statement 3)	1,301	18,391	19,692	1,383	19,978	21,361
SURPLUS	$ 82	$ -	$ 82	$ 278	$ -	$ 278

(See accompanying notes to the financial statements)

THE SASKATCHEWAN RESEARCH COUNCIL EMPLOYEES' PENSION PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
For the year ended December 31
(thousands of dollars)

	2011			2010		
	Defined Benefit	Defined Contribution	Total	Defined Benefit	Defined Contribution	Total
INCREASE IN ASSETS						
Current period change in value of investments	$ -	$ -	$ -	$ 156	$ 1,604	$ 1,760
Contributions	-	1,253	1,253	11	1,177	1,188
Total increase in assets	$ -	$ 1,253	$ 1,253	$ 167	$ 2,781	$ 2,948
DECREASE IN ASSETS						
Current period change in value of investments	$ 54	$ 611	$ 665	$ -	$ -	$ -
Refunds and transfers	-	2,229	2,229	-	578	578
Retirement benefits	224	-	224	251	-	251
Total decrease in assets	$ 278	$ 2,840	$ 3,118	$ 251	$ 578	$ 829
Increase (decrease) in net assets	$ (278)	$ (1,587)	$ (1,865)	$ (84)	$ 2,203	$ 2,119
Net assets available for benefits, beginning of year	1,661	19,978	21,639	1,745	17,775	19,520
Net assets available for benefits, end of year (Statement 1)	$ 1,383	$ 18,391	$ 19,774	$ 1,661	$ 19,978	$ 21,639

(See accompanying notes to the financial statements)

THE SASKATCHEWAN RESEARCH COUNCIL EMPLOYEES' PENSION PLAN
STATEMENT OF CHANGES IN ACCRUED PENSION OBLIGATIONS
For the year ended December 31
(thousands of dollars)

	2011 Defined Benefit *(Note 6)*	2010 Defined Benefit *(Note 6)*
Accrued pension obligations, beginning of year	$ 1,383	$ 1,565
Increase in accrued pension obligations		
Interest on accrued benefits	$ 76	$ 86
Pension benefit increases (Note 1(e))	-	21
Change in mortality assumption	13	15
Experience losses (Note 6)	53	-
	$ 142	$ 122
Decrease in accrued pension obligations		
Benefits paid	$ 224	$ 251
Experience gains (Note 6)	-	53
	$ 224	$ 304
Accrued pension obligations, end of year (Statement 1)	$ 1,301	$ 1,383

(See accompanying notes to the financial statements)

1. Description of the Plan

The following description of the Plan is a summary only. For more complete information, reference should be made to the Plan Agreement. The Plan is administered by the Saskatchewan Research Council (SRC). The Pension Plan Advisory Committee (PAC) promotes awareness and understanding of the Plan, periodically reviews the results of the Plan, and discusses with SRC and Plan members matters of concern to the members. The PAC is comprised of a maximum of five members, of which one is from the SRC's senior management and two to four are appointed by SRC from the list of Plan members.

(a) General

The Saskatchewan Research Council Employees' Pension Plan was established May 1, 1974 for the purpose of providing retirement income to SRC's employees. SRC's head office is located at 125-15 Innovation Blvd. Saskatoon, Saskatchewan.

Up to and including December 31, 1990, the Plan provided the greater of a defined benefit or a defined contribution entitlement for members of the Plan. Effective January 1, 1991, the Plan was amended and restated to provide solely a defined contribution benefit to members. The changes did not affect existing pensioners who will continue to receive benefits as granted.

(b) Funding Policy

The employer contributes 4.875% of the member's earnings up to the Year's Maximum Pensionable Earnings (YMPE) and 7.5% of the member's earnings above the YMPE, as defined under the Canada Pension Plan, on a monthly basis. Under the terms of the Plan, members are neither required nor permitted to make contributions to the Plan.

(c) Retirement

Upon retirement, a transfer is available based on the member's accumulated balance to another pension plan, a Locked-In Retirement Account Contract, a Prescribed Registered Retirement Income Fund or to purchase a life annuity contract.

(d) Termination Refunds

Upon application and subject to lock-in provisions, termination refunds are payable when a member ceases to be employed by SRC.

(e) Defined Benefit Pensioners

Pensioners receive benefit increases effective April 1st of each year based on CPI increases to the extent investment earnings exceed 6% in the

1. Description of the Plan *(continued)*

previous calendar year. Based on the Plan rate of return, the pensioners will not receive an automatic increase on April 1, 2012. The last increase of 2.4% was effective April 1, 2011.

The SRC Board of Directors passed a resolution, such that in a year where indexing of pension benefits, as established under the Plan, does not provide for an automatic increase, or where the automatic increase is less than the maximum permitted, the Board will review the status of the pension plan and may provide for an ad hoc increase.

2. Summary of Accounting Policies

(a) Basis of Presentation

The financial statements for the year ended December 31, 2011 have been prepared in accordance with Canadian accounting standards for pension plans as outlined in the CICA Handbook Section 4600, Pension Plans. For matters not addressed in Section 4600, International Financial Reporting Standards (IFRS) have been followed. The Plan's financial statements were previously prepared in accordance with Canadian generally accepted accounting principles. While this basis of accounting differs in some areas from Canadian accounting standards for pension plans, there were no differences that affected the financial statements of the Plan, other than disclosures. These financial statements are presented in the Plan's functional currency, Canadian Dollars. The financial statements were authorized and issued by the Board of Directors of SRC on March 28, 2012.

(b) Use of Estimates and Judgments

The preparation of financial statements in accordance with Canadian accounting standards for pension plans requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates. Differences are reflected in current operations when identified.

Significant estimates included in the financial statements relate to the valuation of investments and the determination of the accrued defined pension obligations.

2. Summary of Accounting Policies *(continued)*

(c) Investments

Investments are held for trading and stated at fair value. Fair value is determined on the market value of the Plan units in the segregated fund. The market value per unit is the market value of the investments in the segregated fund's portfolio divided by the total number of outstanding units in that fund. The change in the market value of the units is shown as an increase or decrease in net assets available for benefits.

Additional units are acquired when distributions are made by the fund. Cash dividends are not paid by the fund; however, investors can realize changes in the underlying unit values by redeeming units.

(d) Other Assets and Liabilities

Accounts receivable and accounts payable and accrued liabilities are measured at cost and are short-term in nature and as such their carrying value approximates fair value.

(e) Future Accounting Changes

A number of new standards, amendments to standards and interpretations which become effective for annual periods beginning on or after January 1, 2013 and which may have an impact on the Plan, include: IFRS 9, Financial Instruments; IFRS 12, Disclosure of Interests in Other Entities; and IFRS 13, Fair Value Measurement. The Plan is evaluating the impact these new standards will have on future financial statements.

3. Objectives, Policies, and Processes for Managing Capital

The Plan's Investment Policy (Policy) provides a framework for the prudent investment and administration of the Pension Fund for the purpose of managing capital. The Policy provides the Plan's investment manager, Phillips, Hager & North, with a written statement of specific quality, quantity and rate of return standards.

The objectives of the Policy are to ensure that the Plan has sufficient assets to meet its future pension obligations and to generate sufficient cash flows to meet the required pension payments as they come due. The Policy is also designed to minimize interest rate risk and credit risk by ensuring that Plan assets are invested systematically in a diversified portfolio of Canadian and foreign equities and bonds, within the parameters prescribed under *The Income Tax Act* and *The Pensions Benefits Act, 1992*. Due to the long-term nature of the pension

3. Objectives, Policies, and Processes for Managing Capital *(continued)*

obligations and related cash flows, investment mix guidelines consider differences in the interest rate sensitivity of the Plan's assets and liabilities. The Policy is re-visited annually to ensure it is meeting the objectives of the Plan.

The process for managing capital is accomplished by diversifying asset classes and further diversifying within each individual asset class.

The Plan's permissible investments include Canadian equities, U.S. and international equities, bonds and short term securities. Other types of investments are not permitted without prior approval of the Board.

4. Segregated Fund

The investments consist of units in two Phillips, Hager & North (PH&N) segregated funds held by London Life Investment Management Ltd. The PH&N Balanced Pension Trust Fund totaling $18,819,903 (2010 - $21,064,333) and Canadian Money Market Fund totaling $957,947 (2010 - $565,244). The Balanced Pension Trust Fund and Canadian Money Market Fund have no fixed interest rate and returns are based on the performance of the funds. The fair value of the investments is considered to be the market value, the calculation of which is described in Note 2 (c).

The value of the Plan's assets is affected by short-term changes in nominal interest rates, foreign currency and equity markets.

Investments at fair value are categorized into one of three hierarchy levels, described below for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities.

Level 1 – Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2 – Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3 – Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

4. Segregated Fund *(continued)*

The following table presents SRC's fair value hierarchy for those assets and liabilities measured at fair value.

Level	Description	2011 Amount ($000's)	2010 Amount ($000's)
Level 1	Publicly Traded Equities	$10,840	$13,165
	Canadian Money Market Fund	958	566
	Fixed Income Securities	7,980	7,899
		$19,778	$21,630

Significant financial risks are related to the Plan's investments. These financial risks are managed through the establishment of the Investment Policy described in Note 3. SRC reviews the investment manager's institutional report on internal controls to ensure Investment Policy compliance controls are adequate on an annual basis and obtains quarterly attestation of the investment manager's compliance with the Plan's Investment Policy.

Credit Risk

Credit risk arises from the potential for security issuers to default on their contractual obligations to the Plan. The Plan limits credit risk by setting investment restrictions within the Investment Policy and by dealing with issuers that are considered to be high quality.

Market Price Risk

The Plan invests in publicly traded equities and bonds available on domestic and foreign exchanges through the segregated fund. These securities are affected by market changes and fluctuations. The value of investments can be affected by changes in interest rates, foreign exchange rates, and equity prices. To manage these risks, the Plan's Investment Policy strategically distributes investments among several classes of assets to reduce exposure to investment volatility. The Plan's Investment Policy also defines the minimum quality rating for new investments.

Interest Rate Risk

Interest rate risk refers to the adverse consequences of interest rate changes on the Plan's cash flows, financial position and income. This risk arises from differences in the timing and amount of cash flows related to the Plan's assets and liabilities. The value of some of the Plan's assets is affected by changes in nominal interest rates and equity markets.

4. Segregated Fund *(continued)*

The Plan manages interest rate risk by establishing a target asset mix that provides for a mix of interest-sensitive investments and investments subject to other risks. Interest-sensitive investments are actively managed to mitigate or take advantage of changes in interest rates.

The Plan holds approximately 40.4% (2010 – 36.5%) of its investments in fixed income securities at December 31, 2011 and 4.8% (2010 – 2.6%) of its investments in Canadian Money Market Funds at December 31, 2011.

The following table indicates the approximate change that a 10% change in interest rates could have on net assets available for benefits and surplus as at December 31, 2011:

Description	10% Increase ($000's)	10% Decrease ($000's)
Fixed Income Securities	$798	$(798)
Canadian Money Market Fund	96	(96)

Foreign Currency Risk

The Plan is exposed to currency risk through holding of foreign equities and foreign pay bonds where investment values may fluctuate due to changes in foreign exchange rates. The Plan manages foreign currency risk by limiting investment in foreign securities in accordance with the Plan's Investment Policy and by investing in securities that are strategically distributed over several geographic areas to limit exposure to any one foreign currency.

At December 31, 2011, a 10% change in the Canadian dollar versus the United States of America (U.S.) dollar exchange rate would result in approximately a $269,000 change in net assets available for benefits. A 10% change in the Canadian dollar versus the other foreign currencies currently held would result in approximately a $216,000 change in net assets available for benefits.

Equity Price Risk

Equity price risk is the risk that the value of an equity will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issue or all other factors affecting all instruments traded in the market.

The Plan manages equity price risk by limiting the amount invested in equity holdings in accordance with the Plan's Investment Policy. The Plan holds

4. Segregated Fund *(continued)*

approximately 54.8% (2010 – 60.9%) of its investments in equities at December 31, 2011. Of the total Plan investments, Canadian equities comprise 30.3% (2010 – 34.6%), U.S. equities comprise 13.6% (2010 – 13.4%), and other global equities comprise 10.9% (2010 – 12.9%).

The following table indicates the approximate change that could be anticipated to both the increase in net assets available for benefits and surplus based on a 10% change in the market value of the Plan's investments at December 31, 2011:

Description	10% Increase ($000's)	10% Decrease ($000's)
Canadian Equity Fund	$598	$(598)
U.S. Equity Fund	269	(269)
Foreign Equity Fund	216	(216)

Liquidity Risk

Liquidity risk is the risk that the Plan will not be able to meet its obligations as they come due. The Plan maintains an asset mix, in accordance with the Plan's Investment Policy, which helps to ensure the Plan is able to liquidate investments to meet its pension benefits or other obligations.

5. Investment Performance

The investment manager makes day-to-day decisions in accordance with the Investment Policy on whether to buy or sell investments to achieve the long-term performance objectives set by SRC and the PAC. SRC and the PAC review the investment performance of the Plan in terms of the performance of the benchmark portfolio over 5 year rolling periods. The long-term investment performance objective for the entire portfolio is to outperform a benchmark portfolio.

5. Investment Performance *(continued)*

Results for the year ended December 31, 2011 compared to the benchmark are as follows:

Period ended December 31, 2011	Benchmark Return	Annualized Gross Return
One year return	(0.43)%	(2.63)%
Three year return	8.46%	8.70%
Five year return	1.80%	1.23%

The one, three and five year rates of return are provided by London Life Investment Management Ltd. based on the performance of the segregated funds.

The benchmark return is calculated based on the following indices:

- 35.0% S&P/TSX Capped Composite Index (Toronto Stock Exchange Index),
- 25.0% Morgan Stanley Capital International World Index (ex Canada),
- 35.0% Dex Universe Bond Index,
- 5.0% Dex 30 day T-Bill Index.

6. Obligations for Pension Benefits

The present value of the defined benefit obligations was determined using the projected benefits method prorated on service and management's best estimate assumptions.

Aon Consulting Inc. performed an actuarial valuation as at December 31, 2011 and as at December 31, 2010. The Plan is required to file the next actuarial valuation as at December 31, 2013.

The pension obligations are based on a number of assumptions about future events including interest rates, mortality and inflation. Actual rates may vary significantly from the long-term assumptions used.

Investment earnings in excess of 6% will be applied to provide increases to all defined benefit pensioners in receipt of benefits, which are paid from the pension fund. The significant long-term assumptions used in determining the actuarial value of accrued pension benefits are as follows:

1. Interest rate 6%

6. Obligations for Pension Benefits *(continued)*

2. The 1994 Uninsured Pensioner Mortality Table (UP94) reflects the mortality experience as of 1994 of a large sample of Canadian and U.S. pension plans. The UP94 mortality table projected to 2025 was used in the current actuarial valuation.

A 1% increase in the interest rate assumption would result in a $58,000 decrease to the pension liability. A 1% decrease in the interest rate assumption would result in a $63,000 increase to the pension liability.

The experience losses in 2011 are the result of the Plan experiencing lower mortality rates during the year than those projected by the mortality table used by the actuary.

Upon termination of the defined benefit portion of the Plan, any balance remaining, after discharging all liabilities, shall belong to SRC. The balance may be distributed in a manner to be determined by SRC, at its sole discretion, after receiving prior approval in accordance with *The Pension Benefits Act, 1992*, the *Income Tax Act (Canada)* and the regulations thereunder.

The pension obligations are long-term in nature. The Plan has no intention of settling its pension obligations in the near term and there is no market for settling pension obligations. Therefore, determination of the fair value of the pension liability is not practicable.

7. Solvency Deficit/Surplus

The Plan is registered with the Saskatchewan Superintendent of Pensions (Superintendent) and is required to comply with *The Pension Benefits Act, 1992* (Act). The Act requires the Plan to obtain, every three years, an actuarial valuation that outlines its funding position and solvency position. The funding position outlines whether the Plan has sufficient assets and future contributions to pay the benefits agreed to under the Plan. The solvency position outlines if the Plan has sufficient assets to windup the Plan at the valuation date. If the funding and solvency positions are deficits, the Act outlines how the deficits are to be paid. The actuarial valuation for funding and solvency purposes prepared by Aon Consulting Inc. as at December 31, 2010 was filed with the Superintendent. The 2011 valuation disclosed a solvency deficiency of $81,000 (2010 - $169,000 surplus) and a funding surplus of $82,000 (2010 - $278,000). This actuarial valuation has not been filed with the Saskatchewan Superintendent of Pensions.

8. Related Party Transactions

SRC provides general administrative services without charge.

9. Administration

Administration costs may be paid out of the Plan assets as provided for in the Plan text. Since the Plan was in a deficit position at January 1, 2003, the Board of Directors concurred with management's recommendation that SRC would not be reimbursed for administration costs until such time as a sufficient surplus exists. No administration costs were reimbursed in 2011 or 2010.